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Market Insights & Strategy

The GCC Facts & Figures

Sep 2021

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Introduction

The purpose of this presentation is to provide our readers with a very simple economic and market overview of the GCC region.

A quick reference tool, a snapshot of sorts, that contains basic, but key information about the region. The analysis covers the following topics:

A macro economic snapshot of the GCC region

Our current outlook on oil

FAB's GCC FX & Rates market capabilities

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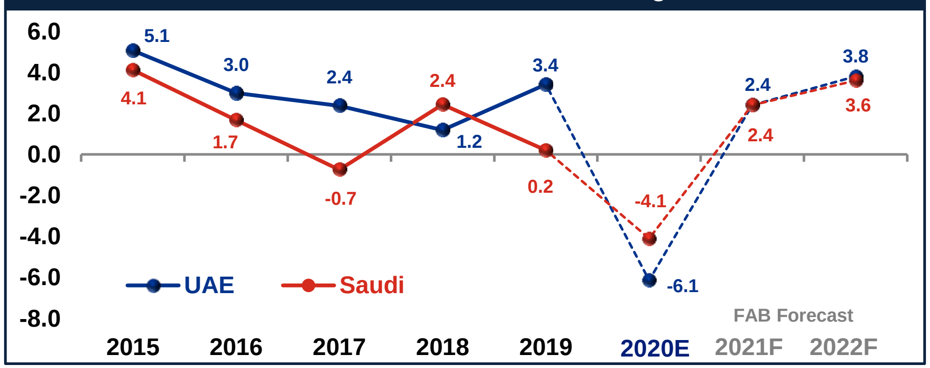
Economic Outlook

GCC has not been immune to the hiatus in global growth from the COVID-19 pandemic

- Since its establishment in May 1981, and until the COVID-19 global pandemic, the Gulf Cooperation Council – Saudi Arabia, the United Arab Emirates, Oman, Kuwait, Qatar and Bahrain – had posted strong annual growth and fiscal surpluses.
- Until 2020, per capita income had historically equaled and in some cases exceeded the levels of the G10 nations.
- But COVID-19 and the associated socio-economic lockdowns turned the economic landscape upside down and into recession.
- The GCC region in 2021 is tracking global reflation, but myriad challenges remain. The path to recovery is anything but smooth.
- We forecast UAE's economy to expand +2.4% in 2021, a rebound from last year's -6.1% contraction. KSA should grow by a similar magnitude this year (from -4.1% in 2020).

Real GDP Growth – YoY % change



Source: FAB/IMF

- Economic diversification efforts over recent years, away from petrochemical revenues, exacerbated the 2020 economic hit as air travel was grounded, population growth reversed and retail and hospitality activity was constrained by social-distancing.
- Reflation is underway, aided by recent oil price strength, but a 'shallow-U shaped' recovery will still leave economic activity below pre-pandemic levels, perhaps until 2023.
- Government stimulus in response to coronavirus has negatively impacted GCC members' fiscal balances. From balanced budget aspirations at the start of 2020, most economies ended last year in deep deficit territory. FY2021 should see deficits reduce, but return to balanced budgets unlikely before FY 2023. Higher oil prices a positive for current account deficits.
- We are optimistic that the global economy will continue to recover through 2021, albeit highly dependent on roll out of Covid-19 vaccination programs.
- The UAE remains the most diversified economy in the region and should benefit sharply from a continued global macro recovery and resumption of tourism activity.
- Diversification is also now a key theme in all six GCC countries particularly Saudi Arabia, which has embarked on a massive economic and social reform program called 'Vision 2030'.

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Economic Outlook

Rebound in growth albeit at a slower pace

- Unprecedented monetary and fiscal stimulus has helped to fuel early-stage economic recovery. But as reflation becomes more widespread during FY2021, how will global markets react to the eventual tapering / withdrawal of these life support systems?
- The 'reflation'/'taper'/'tighten' narrative offers no reason to panic. Rather it should be seen in the positive context of the improving macro fundamental landscape, from the depths of the Q2 2020 recession, on which it is founded.
- IMF data suggests the GCC region contracted by 4.8% last year (2020) after modest regional growth of 0.7% in 2019. The IMF now forecasts an economic recovery to +2.7% GDP growth this year and +3.8% expansion in 2022.
- IMF sees UAE GDP growth of 1.7% in 2019, followed by sharp (6%) recession in 2020. Rebound forecast for 2021 to +3.1%, +2.6% in 2022. (FAB: -6.0% 2020; +2.4% 2021; +3.2% 2022).
- It is hoped that (delayed) Dubai EXPO will bring positive economic momentum to the GCC region more broadly. Covid-19 remains a threat locally and regionally, but if the pathogen can be perceived as 'contained', the regional GCC economies should be primed to rebound.
- IMF data shows GCC inflation of -1.5% in 2019 as pandemic hit and small recovery to +1.2% in 2020. IMF now forecasts GCC inflation of +2.7% this year and +1.9% in 2022.
- The recent stabilization in oil prices as a primary result of OPEC/OPEC+ production cut agreements, as well as generic global macro reflation expectations will remain a positive factor for GCC member states' government revenues and sovereign fundamentals over the coming 12 months.
- Reduction in red tape and introduction of more investor friendly regulations; eg: long-term 'Golden' residency visas, 100% foreign ownership laws etc. should help to boost the private sector.
- The five GCC currency pegs to the USD are expected to remain in place in the near to medium-term; central banks to continue to track FED moves (Kuwait uses a basket regime). Adequate reserves to cushion any near-term pressures on the pegs.
- Structural reforms need to continue to focus on economic diversification, private sector (SME) development, and labor market and fiscal reforms including pensions
- The GCC nations are adapting to changing global economic conditions, but numerous challenges remain, such as a still high dependence on energy sector related revenues in most states, and the ongoing reliance on the government sector to drive recovery in the post-pandemic era.
- Economic impacts of the pandemic will be slow to recede. Deeper private sector involvement must be encouraged, whilst public sector needs to become more efficient and transparent.

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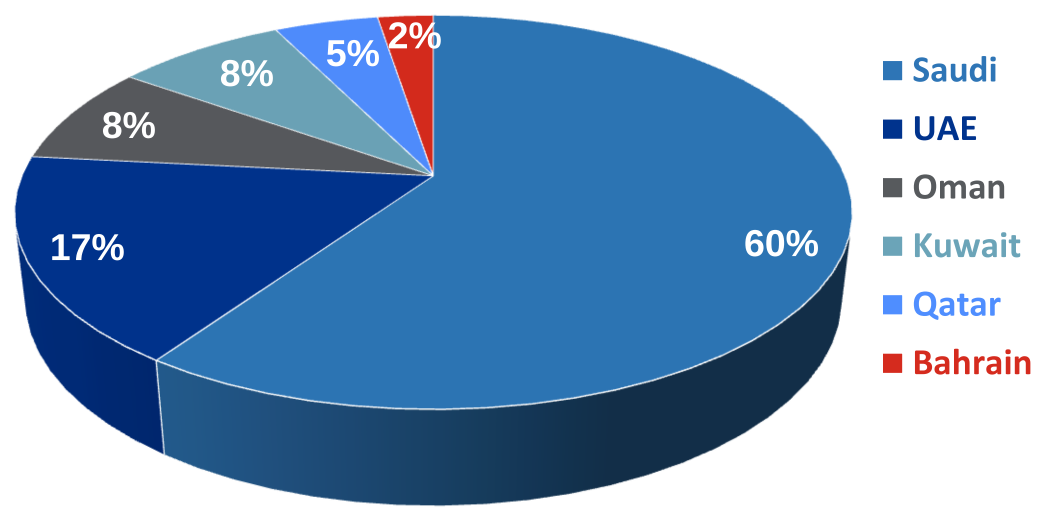
GCC Population - How do the Countries Compare?

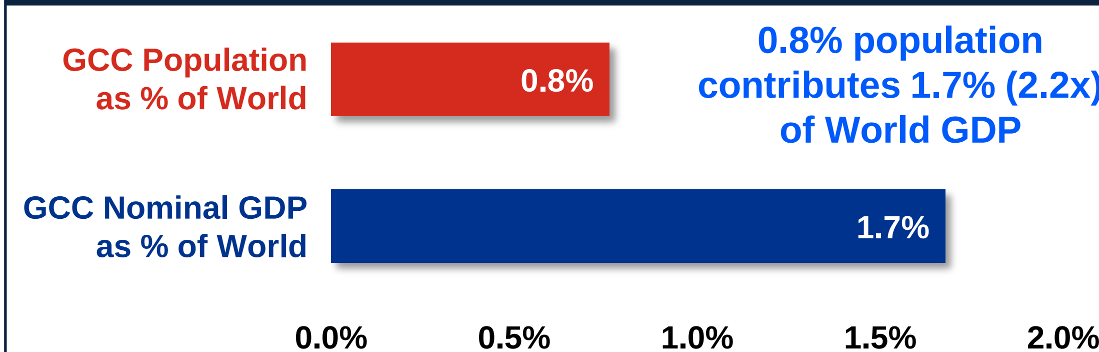
GCC: Gulf Cooperation Council	58.33 million
Saudi Arabia	34.8m
UAE	9.9m
Oman	4.73m
Kuwait	4.6m
Qatar	2.8m
Bahrain	1.5m

Source: FAB / IIF / World Bank / United Nations (2020 Figures)

GCC Aggregate Population



GCC vis-à-vis World



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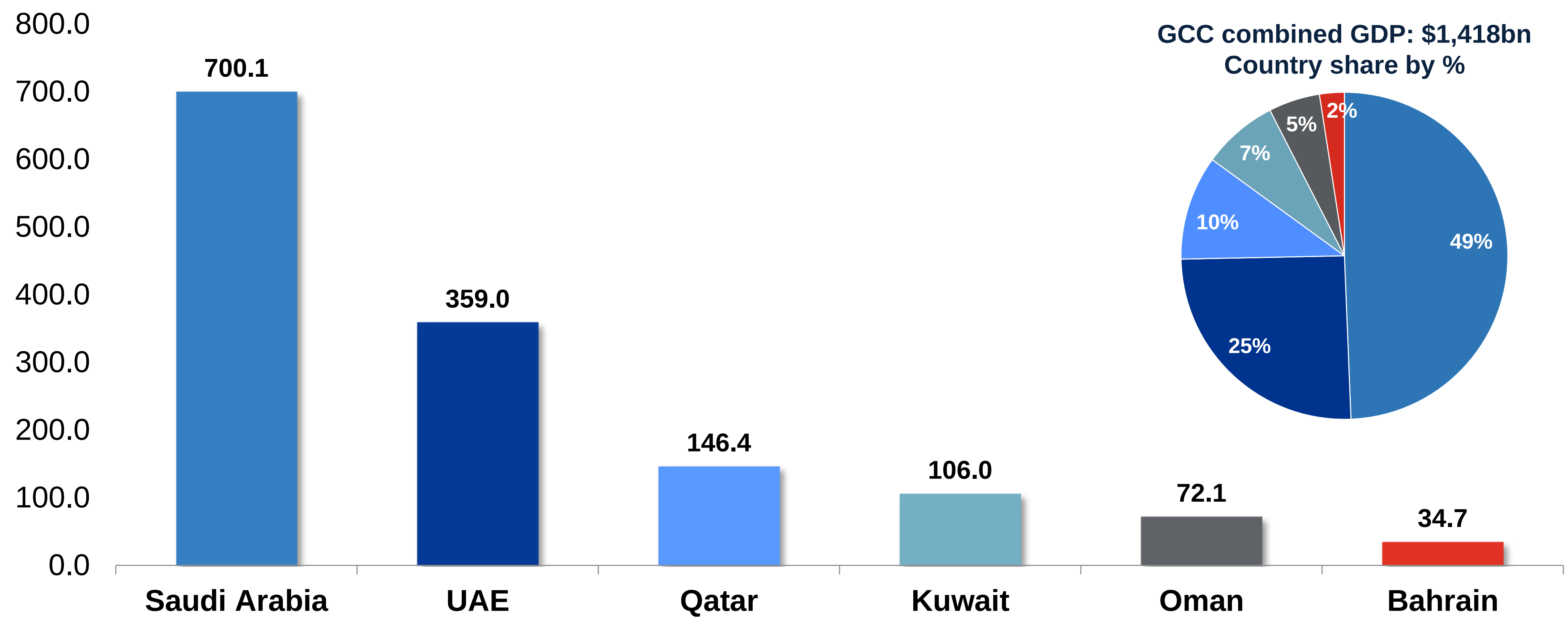
GDP – Who Generates the Lion's Share?

2020 Nominal GDP in US$ billion



2020 Real GDP Growth (y-o-y % change)						
	Qatar	Saudi Arabia	Oman	Bahrain	UAE	Kuwait
	-3.7%	-4.1%	-4.4%	-5.1%	-6.1%	-8.5%

Source: FAB/IMF/IIF

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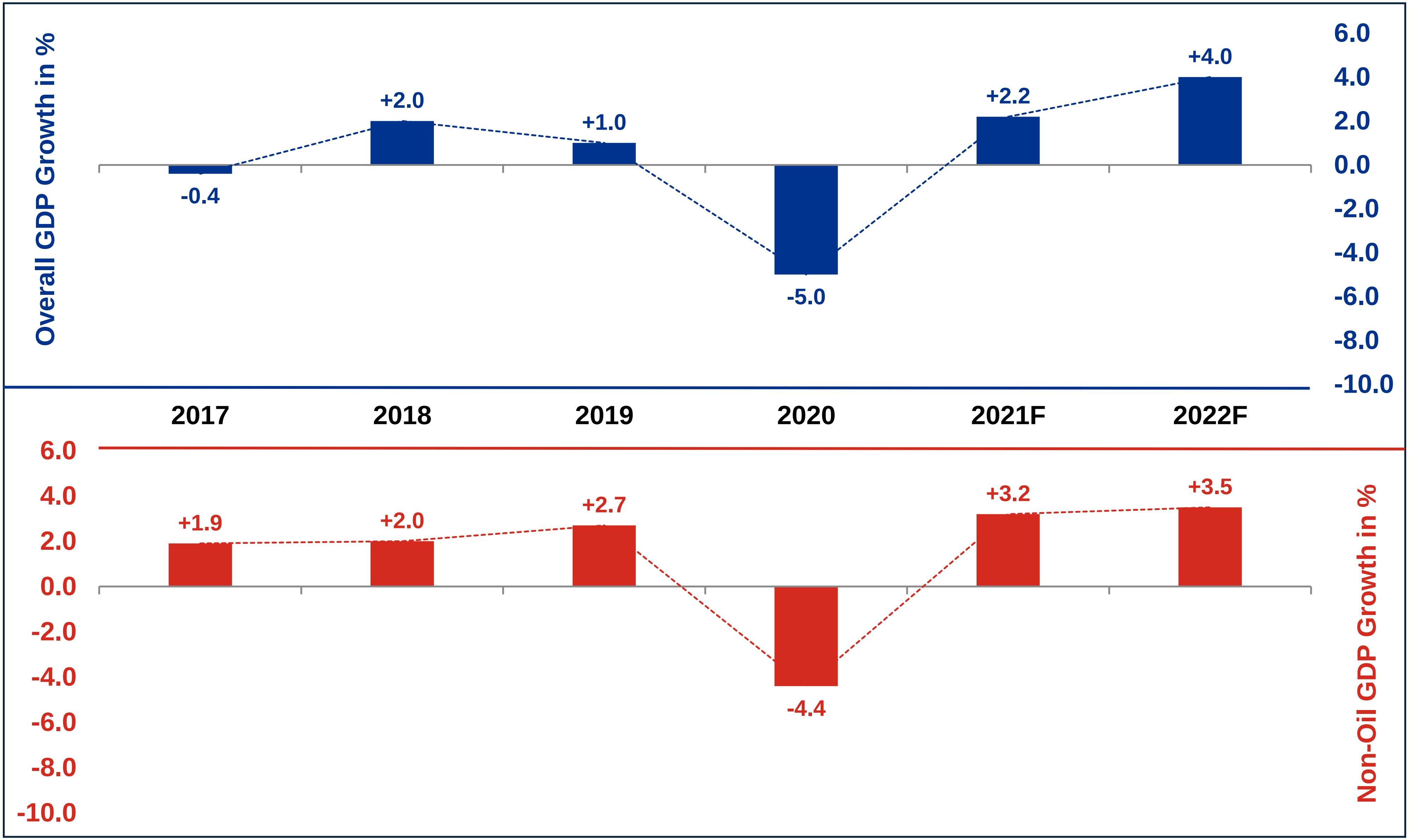
GCC GDP Growth Trend (IMF figures and forecast)



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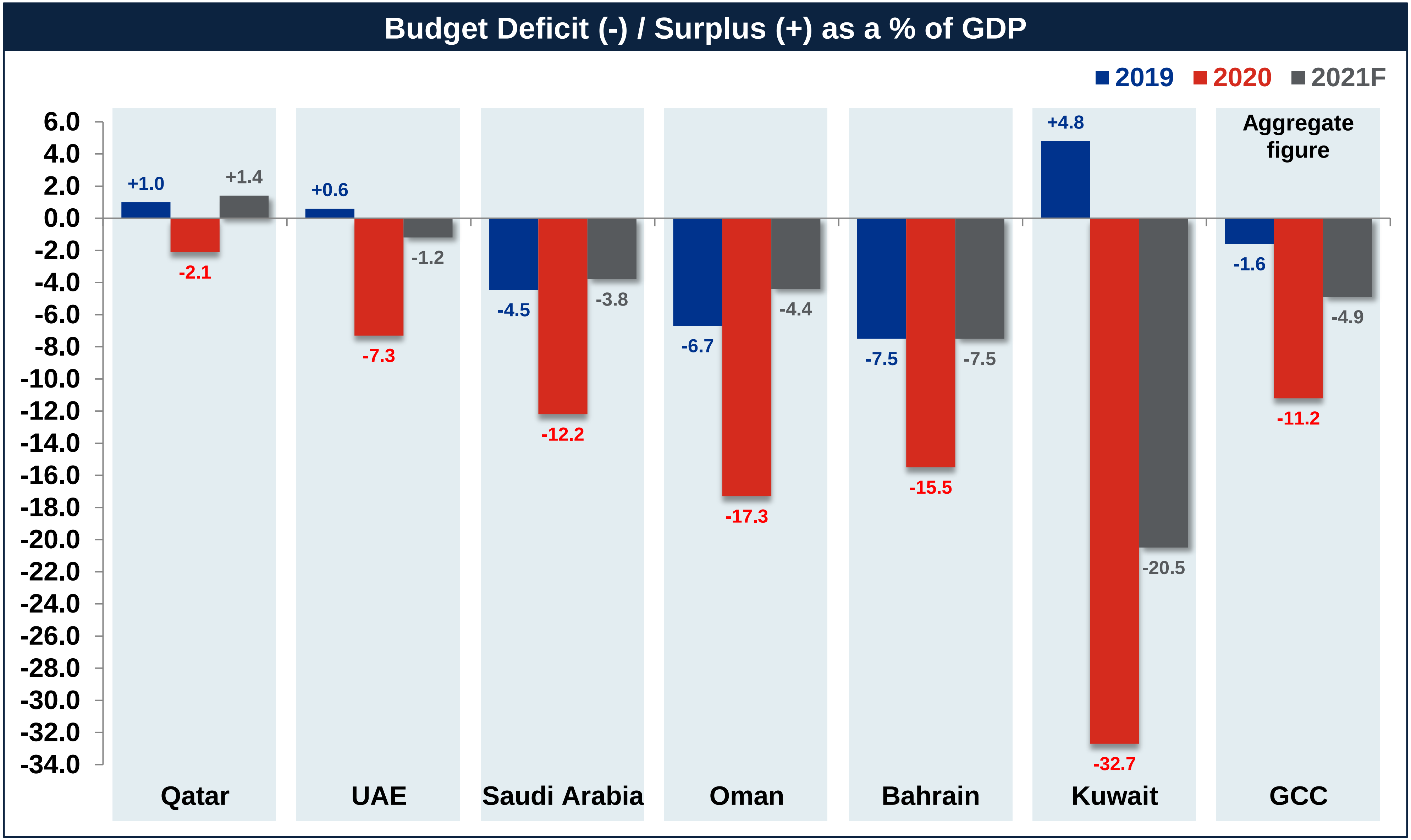
Recovery in fiscal gaps reversed by COVID-19



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Key Fiscal Data Points (2021 Forecast*)

	Kuwait	UAE	KSA	Qatar	Oman	Bahrain
General Govt. debt as % of GDP	10.9	32.8	31.8	58.2	64.1	113.3
Total External Debt as % of GDP	58.8	91.2	30.4	125.5	75.4	223.0
Fx Reserves covering months of imports	11.0	16.6	26.6	15.6	5.1	0.9
Total foreign assets as % of GDP	528.5	253.3	122.2	203.3	49.1	37.7
Fiscal Deficit as % GDP	-20.5	-1.3	-3.8	1.4	-4.4	-7.5

Note: * Institute of International Finance (IIF) forecast as per its Aug 2021 update; Source: FAB/IMF/IIF/Gov.Statistical Centers

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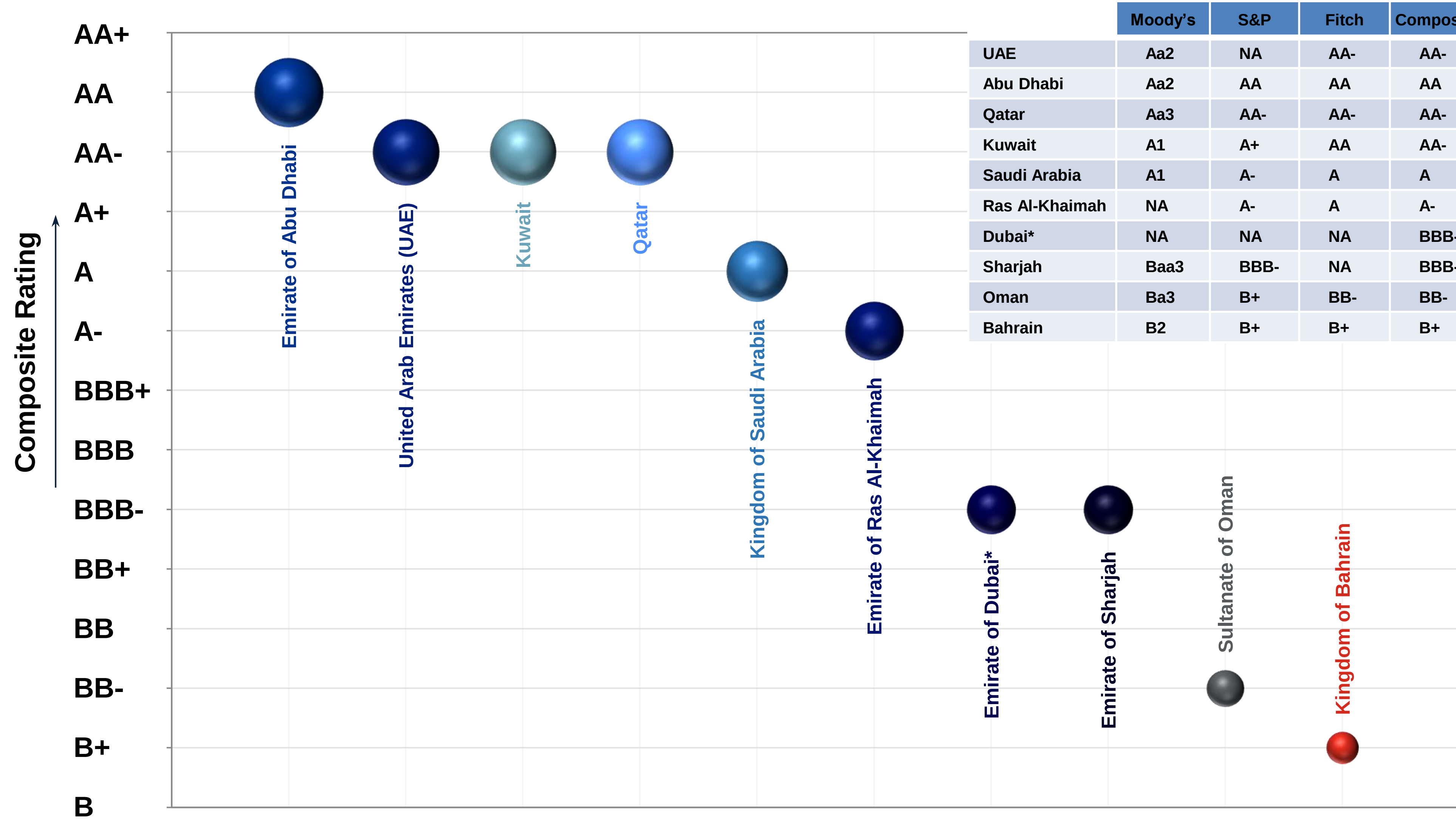
GCC Sovereigns credit ratings

	Moody's	S&P	Fitch	Composite
UAE	Aa2	NA	AA-	AA-
Abu Dhabi	Aa2	AA	AA	AA
Qatar	Aa3	AA-	AA-	AA-
Kuwait	A1	A+	AA	AA-
Saudi Arabia	A1	A-	A	A
Ras Al-Khaimah	NA	A-	A	A-
Dubai*	NA	NA	NA	BBB-*
Sharjah	Baa3	BBB-	NA	BBB-
Oman	Ba3	B+	BB-	BB-
Bahrain	B2	B+	B+	B+



Notes: The ratings mentioned here are composite credit rating for each issuer. Please see appendix for the methodology of calculating composite credit rating; * Dubai is not rated by any rating agency and we have assigned a proxy rating of 'BBB-' based on its fundamentals with a relative comparison to Dubai GREs - DEWA (Baa2) and DP World (Baa3/BBB-) - and Emirate of Sharjah (Baa2/BBB); Source: Bloomberg/FAB

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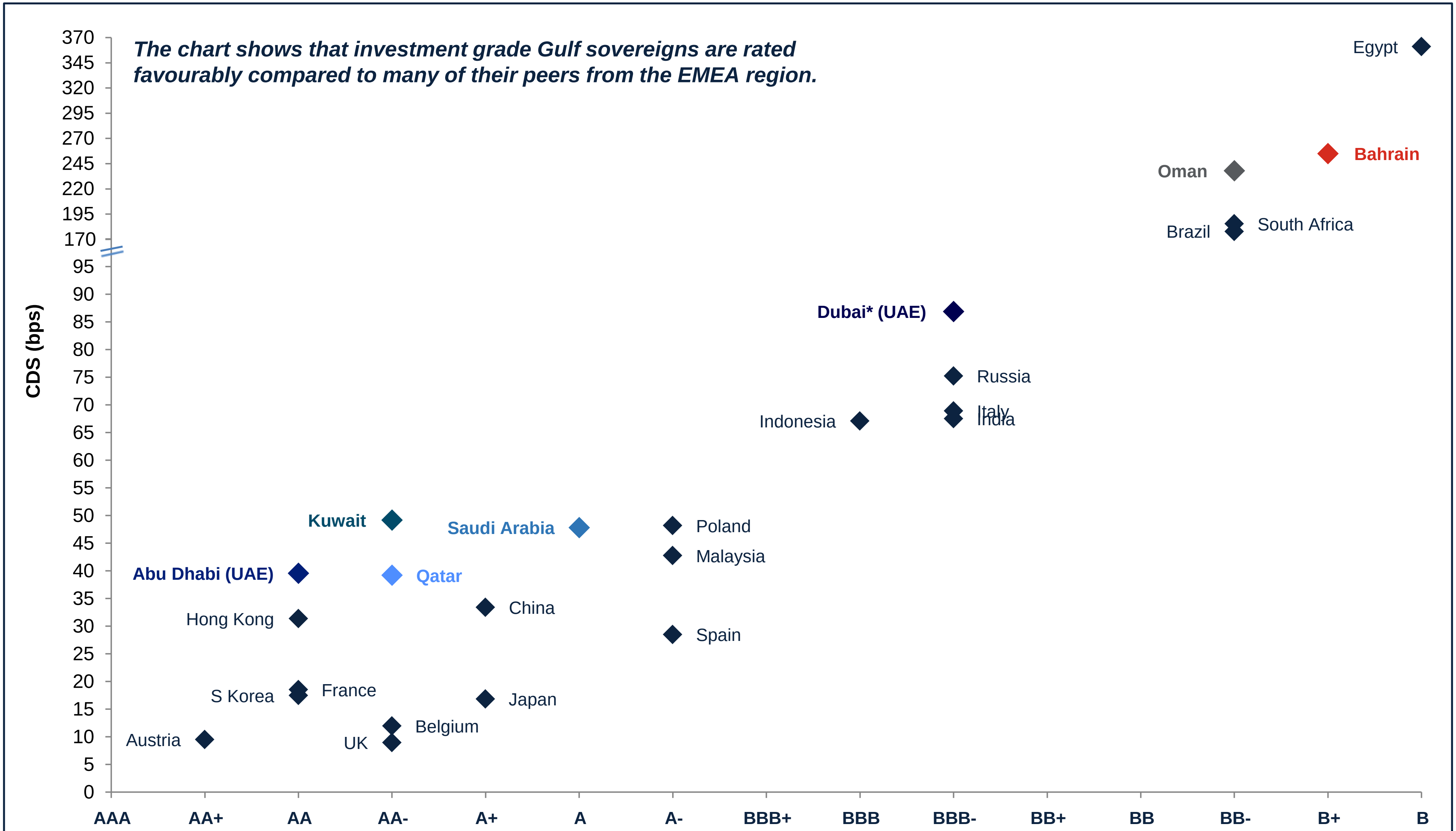
GCC Sovereign Credit Ratings and CDS Spreads versus Peers



Notes: * X-axis represents the composite rating (please refer Appendix for calculation method); Dubai is not rated by any rating agency and we have assigned a proxy rating of 'BBB' based on its fundamentals with a relative comparison to Emirate of Sharjah (Baa2/BBB) and Dubai GREs like DEWA (Baa2); and DP World (Baa3/BBB-); The ratings have been arranged from higher to lower starting from 'AA', followed by 'AA-' and so on; CDS levels are for 16th September 2021; Source: Bloomberg

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Crude Market Outlook

COVID-19, Shale & Geopolitics

- After WTI touched record lows in 2020, we have since seen a far stronger than expected recovery in crude prices during the first half of 2021.

- This rebound has been driven primarily by the introduction of a COVID-19 vaccine and the consequent slow but steady reopening of the global economy, supported by the strict adherence to their relative production allocations by signatories to the OPEC+ output cut accord.

- Global crude inventories have declined sharply and most are now below their 5 year average, although certain petroleum blends such as A1-Jet are still lagging with global air travel unlikely to return to pre-pandemic levels until late 2022.

	2021 Fiscal Break-Even*
Bahrain	88 US$
Saudi Arabia	76 US$
Oman	73 US$
Kuwait	70 US$
UAE	65 US$
Qatar	43 US$

Note: * Estimates only; Sources: IMF/IIF/S&P Platts/FAB

- Despite the recovery in prices, overall US crude output has been reasonably muted thus far, due to the majority of shale producers continuing to focus on cost cutting, tighter environmental regulations and previous ardent investors/lenders into this sector being much more selective.

- On the geopolitical front, indirect talks between the US and Iran on a possible return to the JCPOA agreement have been on hold since the new more hardline administration under President Raisi took office in Tehran. However, both a complete collapse of the talks or a sudden breakthrough are still very possible, with the latter event probably the most underpriced outcome by the market at this stage. Meanwhile, although Libyan production has recovered back above 1 mio bpd since the peace accord was signed late last year, ongoing funding and maintenance issues, internal disagreements as well as protest action continues to delay a full recovery.

- In terms of forecasts, and taking into account all of the above we remain positive in the outlook for global crude demand, especially in Asia. However, calls by some analysts for a possible move closer towards the US$100 a barrel level seem to us to be too optimistic at least for this year, especially as concerns remain over the appearance of more infectious COVID-19 variants, and China's recent macro numbers have been mixed. As such we expect Brent to average US$68 a barrel this year.

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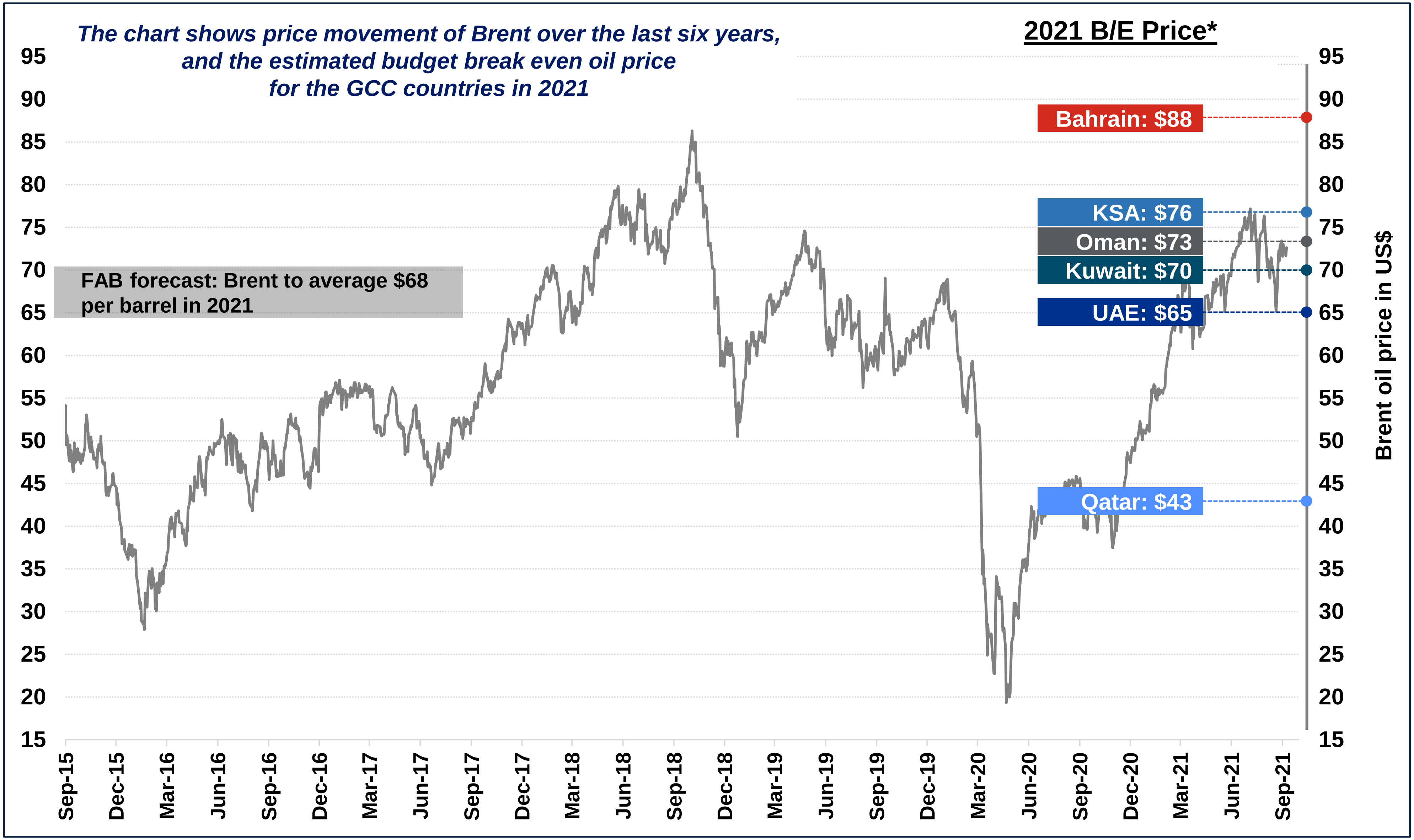
2021 Budget Break-Even Oil Prices (US$)



Note: * FAB estimates; Source: IIF/FAB

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Govt. Dependency on Oil Revenues
(% of govt. revenue from oil vs oil B/E price)

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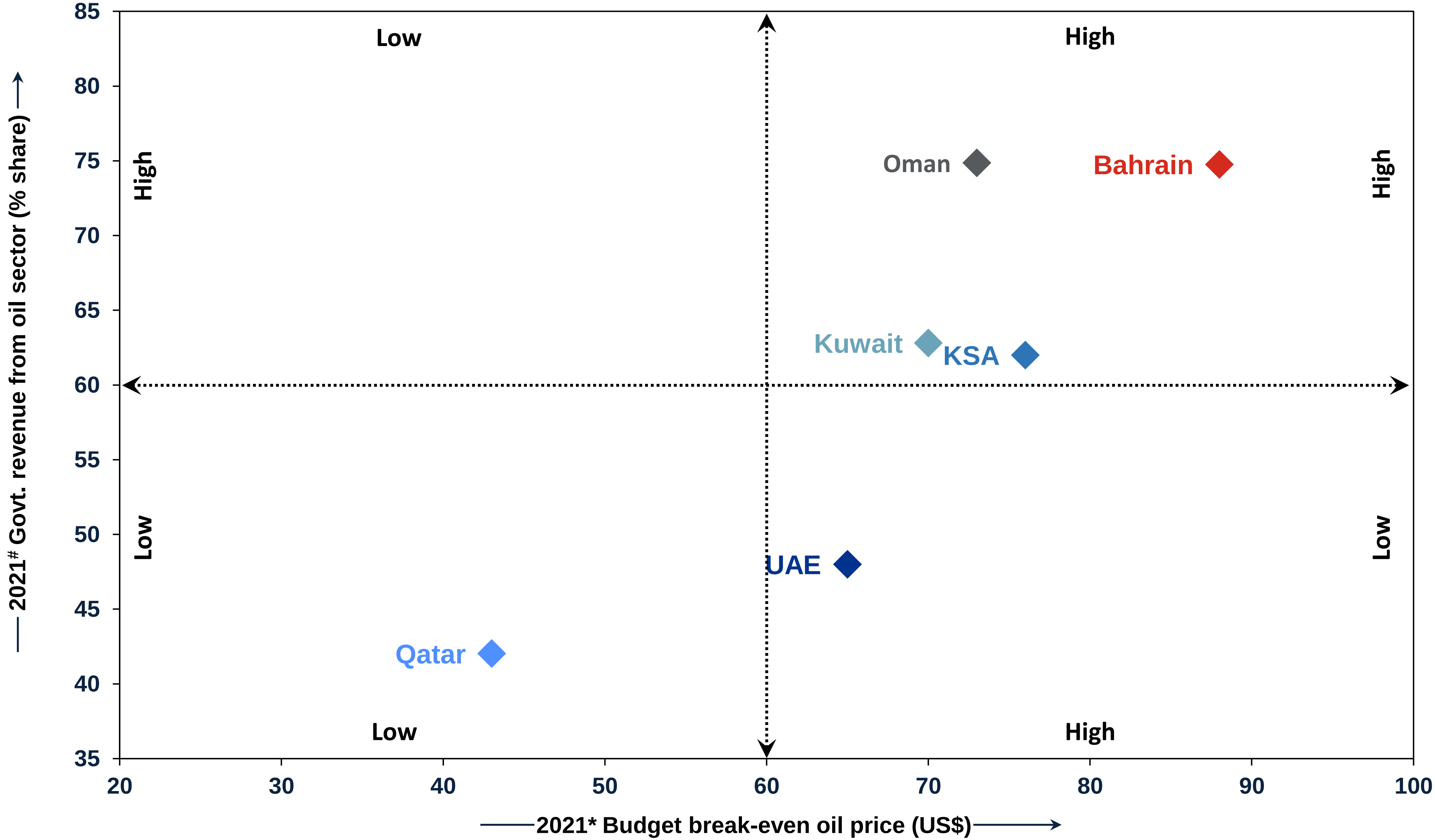

Note: * FAB estimates / # IIF estimate; Source: FAB/IIF

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GCC Economic Snapshot – the key numbers*

Indicators	UAE			Saudi			Kuwait			Qatar			Oman			Bahrain		
	2019	2020	2021F	2019	2020	2021F	2019	2020	2021F	2019	2020	2021F	2019	2020	2021F	2019	2020	2021F
Nominal GDP (US$ Billion)	417	359.3	425	793.0	700.1	788	136	106	128	175.8	146.4	174.3	76.3	72.1	80.3	38.7	34.7	38.5
Real GDP (% change y-o-y)	3.4	-6.1	2.4	0.2	-4.1	2.4	0.7	-8.5	1.3	0.8	-3.7	3.1	-0.8	-4.4	1.2	2.1	-5.1	2.6
Per Capita GDP (US$ Thousand)	42.7	36.3	41.2	23.1	20.1	22.4	28.5	21.6	25.5	62.1	50.8	59.6	16.1	16.2	16.2	26.05	23.6	25.7
P. Capita Real GDP % change y-o-y	1.9	--7.3	2.6	-1.4	-5.7	0.9	-2.6	-10.7	--1.1	-1.0	-5.4	1.6	-2.4	1.7	0.2	3.4	-4.3	1.1
Nominal GDP from oil sector (% share)	29.1	29.1	28.5	38.2	37.5	36.6	46.2	45.9	44.9	38.0	38.6	38.5	41.4	42.9	43.3	18.5	19.5	19.2
Gov. Revenue from oil sector (% share)	50%	41%	48%	64%	56%	62%	66%	49%	63%	41%	35%	42%	75%	67%	75%	72%	70%	75%
Inflation (% change y-o-y)	3.1	-1.9	-0.8	-2.1	3.4	3.1	1.1	2.1	2.2	-0.9	-2.6	1.1	0.1	-0.9	2.4	1.0	-2.3	1.0
Budget Balance as % GDP	0.6	-7.3	-1.3	-4.5	-12.2	-3.8	4.8	-32.7	-20.5	1.0	-2.1	1.4	-6.7	-17.3	-4.4	-7.5	-15.5	-7.5
Net Foreign Assets in US$ billion	113.8	132.1	140.1	512.8	467.1	458.7	63.9	69.5	74.0	-42.5	-68.1	-62.9	12.9	9.2	10.3	0.79	-1.58	-1.48
Govt. Debt as % of GDP	27.1	36.2	32.8	22.8	32.5	31.8	5.6	4.5	10.9	62.3	71.8	58.2	61.2	74	64.1	92.9	119.7	113.3
Total External Debt as % of GDP	78.1	99.6	91.2	23.2	29.8	30.4	50.2	67.9	58.8	122.9	138.7	125.5	74.8	84.3	75.4	207.6	242.6	223.0
Foreign Direct Inv. (FDI) in US$ billion	17.9	19.9	21.2	4.6	5.5	7.2	0.11	0.94	0.11	-2.8	-2.4	0.5	3.4	2.8	3.0	1.5	1.01	1.31
Fx Reserves in US$ billion	107.3	103.2	103.2	499.1	453.2	484.2	39.8	48.1	52.1	37.7	37.5	42.8	16.7	15.0	16.3	3.4	1.9	2.0

Note: * As estimated by Institute of International Finance (IIF) in its Aug 2021 update; Source: IIF/IMF/WB

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